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STRATEGY RESEARCH PROJECT

INTEGRATION OF THE "AMERICAS" IN THE 21ST CENTURY

BY

LIEUTENANT COLONEL MILTON GUIMARÃES
Brazilian Army

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by

Lieutenant Colonel Milton Guimarães International Fellow – Brazilian Army

> Colonel Dennis Keller Project Advisor

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U.S. Army War College CARLISLE BARRACKS, PENNSYLVANIA 17013

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ABSTRACT

AUTHOR: Lieutenant Col

Lieutenant Colonel Milton Guimarães

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Through a program of comprehensive research and detailed analysis, the paper presents current and proposed steps for the Integration of the Americas in the 21st Century within the time frame agreed to by all of the participants in the last Summit of the Americas held in Santiago, Chile in 1998.

Based on the two most successful existing trade agreements in the Western Hemisphere, NAFTA and MERCOSUR, the discussion will attempt to document the theories, foreign policies, problems and facts which eventually resulted in a successful integration process. It will effectively define the meaning of the word "regionalism" in a comprehensive manner which will also include the definition and understanding of that term by the two most important partners in those regional trade agreements, the United States of America and the Federative Republic of Brazil. Also, the regionalism concepts of both the U.S. and Brazil will be shown as actual options for hemispheric integration. Further, the NAFTA and MERCOSUR models will be analyzed and the current differences between the two will be detailed to enable a better understanding of the integration process.

Following a discussion of the current and potential problems in the concept of a "Free Trade Area of the Americas" as foreseen by both the United States and Brazil, the paper will conclude with what is considered to be the most feasible recommended steps needed to be taken in a pragmatic and modern approach to enable the construction of a strong and sustainable process to integrate the Continent.

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INTEGRATION OF THE "AMERICAS" IN THE 21ST CENTURY

...Nothing so needs reforming as other people's habits.

Habit is habit, and not to be flung out of the window by any man,
but coaxed downstairs a step at a time... Mark Twain, "Pudd'nhead Wilson"

This project is an option to integration of the Americas in the near future. It concludes that integration should be based primarily on economic considerations, rather than political objectives. The most active economic blocs operating in the Americas, the Southern Cone Common Market (MERCOSUR) and the North American Free Trade Agreement (NAFTA), have already achieved important goals and objectives in their process towards hemispheric economic integration, which supports this conclusion.

The paper sets forth the visions of both Brazil and the United States concerning regionalism and compares and analyzes the provisions of both MERCOSUR and NAFTA.

The discussion of the Brazilian and the U.S. points of view on the Free Trade Area of the Americas (FTAA) concept is predicated on both the political and the economic viewpoints of each of the countries involved. This document closes with specific recommendations to hemispheric policy makers, pointing out potential criteria on which a successful FTAA must be based in order to achieve a sustainable and lasting economic integration of the Americas.

MAJOR REGIONALISTIC CONCEPTS

The definition of "Regionalism" in a given geographical area is that of a multi-dimensional political process of integration occurring between three or more countries. In the long term, it may result in a higher level of cooperation and cohesion between the nations involved as well as some form of multi-national management of regional problems. However, such a process seldom leads to a new political unit. Regionalism therefore is an artificial social construction and not some kind of natural evolution and is basically a response to economic, geographic and other challenges but exists without any deterministic force behind it. This artificiality ensures that progress in one area of a regional process of integration will not necessarily entail progress in other areas; therefore that progress could be halted, modified or reversed at any time.

All is well and integration can take place when, in a particular regional scheme, major actors share similar perceptions, attitudes, and behavior. However, the integration process can be halted or reversed if different points of view and behavior persist and confrontational policies

prevail . Regionalism is determined by the behavior of the multiple actors involved in the process and by the way regionalism converges with their different interests and strategies and becomes part of the strategic environment of these actors. ²

The words "region" and "regionalism" are ambiguous terms ³ and many authors have interchangeably used the terms "political integration," "regional integration, regionalism, regionalization, regionness and new regionalism" to identify a phenomena that may have assumed different forms over the years but that in essence remains the same entity. These definitions make two points: first, they underline the literature's difficulty in establishing a conceptual clarity, and second, they show that regionalism is a process, the phenomena are multidimensional and they are constructed by actors deeply involved in the process, most particularly "state" actors.⁴

The regionalism concept is not new, so its fairly recent "re-discovery" should not ignore the reality that the international system has been aware of it for more than forty years. Since the 1950's, trade and commercial tensions at global, multi-national and regional levels have been present and they have also made an appearance in broader strategic areas. The regional concept may lay a significant foundation and be a framework for political and economic activities, as well as be a prospect for developing strategic planning for integration in the global system. Although it could be viewed as an exaggeration, the fact remains that regionalism became a significant feature of the international system with the impetus given by European unification.⁵

Evidence that nation-states are rushing to regionalize has accumulated in the form of an intensifying growth in and of regional organizations in the 1990's. The North American Free Trade Agreement (NAFTA), the Asian Pacific Economic Cooperation Forum (APAEC), the Southern Cone Common Market (MERCOSUR) and the "European Agreements" between the European Union (EU) and neighboring nations in Central and Eastern Europe are well known examples of this trend.⁶

Historically, two distinct regionalist perspectives have co-existed in the Americas. One is the Western Hemisphere Idea – what Harold Molineu⁷ and others have termed the U.S. vision of a regional system. It consists of a project built upon three pillars: the political primacy of the United States in the inter–American system; an exclusively U.S. institutional framework for the settlement of disputes; and a free trade area in the Americas. For a number of reasons, it is also accurate, as Gordon Connell Smith⁸ has pointed out, to speak of "logical growth" from the original visions of Thomas Jefferson, through the attempts by Franklin D. Roosevelt, and right up to the current viewpoint developed under the auspices of George Bush, the elder. In spite of

historical "ups-and-downs," some of them a direct result of U.S. policy, the present hemispheric situation is in many ways a contemporary manifestation of a U.S. vision kept alive for almost two hundred years! Second, and placed in another extreme, there is the "Bolivarian" Vision⁹ which sought to integrate the continent without U.S. participation. Bolivar believed in a Latin America free of U.S. dominance in the political organization of the region, particularly while it was becoming independent from Spain.¹⁰

REGIONALISM ACCORDING TO THE U.S. VISION

The post-Cold War era brought unrivaled U.S. leadership to the continent. The advanced idea of regionalism in the Americas was a manifestation of this triumphant and unilateral power. The Enterprise for the Americas Initiative (EAI)¹¹ launched by former President Bush contained a vague statement concerning hemispheric unity and assumed wide agreement in the Western Hemisphere on trade liberalization. In the ten years since that statement was made without much evaluation of its impact, the immediate enthusiasm that was generated has changed to a frustrated feeling that the United States has no real desire or intention to accomplish trade reform. The initial euphoric attitude was illustrated by the reaction of Luis Lacale, former President of Uruguay. He said:

"When, after years of our complaining of neglect, the most important man in the world offers his hand, then I think we should grab it – and the arm and the elbow and the shoulder, too." 12

Since 1990, U.S. foreign policy on hemispheric regionalism has been both tentative and ambiguous. The tentative aspect is the "fast-track" legislation, now under close Congressional scrutiny, which restrains presidential actions. And the ambiguity could be characterized as a regionalism "option" instead of a clear regionalist policy.

While the United States hesitates, other governments are forging ahead. The MERCOSUR countries have made advancements in consolidating their own common market and are opened to new members. Also Mexico and MERCOSUR have moved to closer ties to the European Union. All of those countries are actively participating in a program to prepare future negotiations for a Free Trade Area of the Americas (FTAA). The FTAA was officially launched during the First Summit of the Americas held in Miami in December of 1994. Indeed, as Sidney Weintraub pointed out, the United States has now lost by default its de facto leadership position within the process of regionalism, which it held during the former President Bush era. As a result, instead of the preferred U.S. scenario of a progressive and selective enlargement of NAFTA, the current FTAA schemes are based on the principles of hemispheric inclusiveness and single undertaking. The stated FTAA principles form a much heavier and more multilateral

institutionalized path toward regional economic liberalization than the one initially foreseen by Washington.¹⁵

The institutionalization of democracy in most Latin American countries in the last decade not only represents the thrust of U.S. foreign policy interests but is also the basis for the transformation sweeping the region. With the end of the Cold War, international security structures are now accompanied by an unequivocal call for the ideals of democratic governance. From the political and security suspicions of the past, the acrimonious foreign policy clashes and the occasionally anxious economic relations, a new spirit of partnership has emerged. The Western Hemisphere, now entering the 21st Century, is truly changed - a testimony to the positive results of rebuilding relationships on the basis of cooperation and trust. ¹⁶

THE BRAZILIAN VISION OF REGIONALISM

After it had won its independence from Portugal in 1822, Brazil was mostly interested in establishing a foreign policy directed towards Europe and expressed only a mild interest in Pan-Americanism. The monarchy system was at variance with the general political patterns of other Latin American countries, which, under republican governments, reflected most of the integration idealism that existed in the subcontinent. Seventy years later, when Brazil itself had changed to an elected democratic type of Government, Brazil's foreign policy priorities were turned away from Europe and were directed toward the United States.

The conduct of Brazil's foreign relations is a responsibility of and is very much centralized by the Foreign Ministry but economic liberalization and civilian rule have expanded direction and control with the end result of a less homogeneous international posture.¹⁷ At the same time, foreign policy, political interests and domestic economics have tended to increase bargaining power in international negotiations. The hemispheric regionalism debate has been strengthened by this convergence.

The two main principles expressed by Brazilian national strategy are first, the ultimate preference for multi-diversification in two different major markets. The importance of the United States, Latin America and the European Union being involved in Brazilian trade and investment, as well as concerns about possible trade deviations resulting from a regional strategy, influence the current policy. And second, a preferred choice for sub-regional integration over that of any U.S. led hemispheric organization. According to Purcell, there is a significant economic reason for Brazil's desire to consolidate MERCOSUR, "Brazil's exports to its MERCOSUR neighbors are characterized by substantial value - added by the Brazilian work force in contrast to the

predominance of raw material and agricultural produce that usually lead in the exports of socalled developing countries."¹⁸

CONFLICTING APPROACHES

Brazil's strategy on hemispheric regionalism has not really changed since former President Bush announced the "Enterprise for the Americas Initiative." At that time and later Brazil perceived two main objectives - preventing Argentina's defection and guaranteeing a unified position among the MERCOSUR partners (Argentina, Brazil, Paraguay and Uruguay) to enhance bargaining power vis-à-vis Washington. As the Brazilian President said "For Brazil at present the priority must be the consolidation of MERCOSUR, which is near to becoming a free trade zone and a customs union, representing the first step toward a convergence of the various integrationist moves in the region."

The current Brazilian strategy reflects the victory of the Foreign Ministry's (ITAMARATY) position on regionalism.²⁰ In fact, ITAMARATY is still the major Brazilian actor in the hemispheric policy field. The premise that leads diplomatic negotiations is U.S. power, so the policy calls for a "no confrontation" strategy. However, in Brazil's scenarios for a new world order, multiplicity is stressed, thus creating opportunities that enhances Brazil's international ascent.

Autonomy in relation to the United States is an important element. This gives Brazil an independent dialogue with powers in Europe and Asia, especially Japan and China. A close observer could associate Brazil's current stance on hemispheric issues to its aspirations for a permanent seat on the United Nations Security Council.²¹ Brazil justifies this strategy as a pragmatic political policy to assure that Brazil is not limited exclusively to the continental sphere of influence.

In the field of economics, Brazil has already promoted a wide, unilateral opening of its markets.²² Its national interest is best served through negotiations that do not give new concessions to the United States in exchange for U.S. elimination of "anomalous no tariff" barriers targeting such Brazilian exports to the United States as orange juice, textiles, steel and shoes²³. In the Brazilian view, removal of these barriers ought to precede not follow future negotiations regarding access to the Brazilian market.

A difficult question is "would Brazil be able to counterbalance the total U.S. presence in the region?" The answer is no, not if Brazil was acting alone. There are no individual countries in the area that has this power. However, an alliance between several of the Latin American countries could make a difference, especially in attracting other world powers to consider

establishing economic and political partnerships.²⁴ In the United States, supporters of a hemispheric "free trade area" fear that Brazil will select another parameter for continental integration - one that would give the European Union, among others, an advantage in formal agreements with the South American countries. This would be one way to counterbalance the overwhelming U.S. presence although it would conflict with U.S. interests.²⁵

The hemispheric economic integration is a U.S. goal and in spite of changes in the international environment over the past few years, it retains a clear resemblance to its historical predecessor, the Western Hemispheric Idea. The unpredictable future political outcome is unknown, but would surely be the result of unforeseen contingencies and unexpected consequences. In this regard, out of the hegemonic intention, the onset of this process has ushered in deeper cooperation in the Southern Cone. It has also diminished the political and economic distance separating the countries of Latin America and would appear to be an effective method towards achieving a less unbalanced relationship with the United States.

MERCOSUR AND NAFTA.

At the entrance of the new millennium, the world is passing through a period of intense technological, political and organizational changes. Computer networks permit us to control and analyze our environment more deeply than ever before, bringing the world population into a dynamic relationship. Television networks place entertainment, news and occasionally even culture, inside most of the homes in the global village. Multinational companies have spun commercial and industrial webs that cover the planet, delivering goods and services to previously isolated regions. Major nations have forged powerful common markets that permit free passage of goods, services, and people

With the participation of countries like France, Britain and the United States (which have traditionally been careful to maintain their independence) in economic blocs, the historical process has become unstoppable. We are witnessing the birth of a new trans-national world order that will profoundly mark the next historical era. The trend toward free trade areas is so strong that there is no sense in maintaining an illusory independence because the countries that remain outside will be trapped into poverty and underdevelopment. Latin America has been struggling to insert itself into the world context over the last few decades, so it is no surprise to find common market tendencies in the region.

The major initiative so far has been in the south of the sub-continent with the creation of MERCOSUR, ²⁸ a customs union of Argentina, Brazil, Paraguay, and Uruguay. It was formalized by the Treaty of Asunción in March 1991. At the time the treaty was signed there was

little to no discussion or consideration about its possible impact on Brazil, which was still reeling from the effects of the major economic and political changes introduced by the government of Fernando Collor.²⁹ There has been little criticism of such a wide-reaching measure - opinion in Brazil seems to be that common markets are inevitable and that MERCOSUR is a logical step. Because the partners in the union are either roughly on a level with Brazil, or much smaller, the plan does not arouse any patriotic fears. Even an intellectual with strong links to the Brazilian labor movement, criticizing the new market in a periodical issued by the Workers Party, concluded that "it does not appear to be possible to offer alternatives to the consolidation of MERCOSUR."³⁰

Despite the positive attitudes mentioned above, the implementation of MERCOSUR will necessarily be a slow process. In the past, Brazilian society has been relatively closed with stringent bureaucratic controls. For instance, it seems paradoxical to discuss free international transit of goods when shipments are currently inspected and taxed at state borders within Brazil, or even to consider telecommunications within the four countries. It costs several thousand dollars to purchase a telephone line in Brazil and during peak hours it is difficult to place a call between major cities.

At the moment MERCOSUR is basically seen as a Treaty of importance only to commercial and business circles.³¹ But the common interests and characteristics of the four countries are very similar. It is inevitable that MERCOSUR, beyond its technical name, will develop and eventually become a true common market permitting the free exchange of goods, currencies, people, institutions and cultures as is currently occurring in the European Union.

The North American Free Trade Agreement (NAFTA) is a trilateral accord between the United States, Canada and Mexico inaugurated on January 1, 1994. The Agreement's priority is to eliminate barriers to trade and investment in the "free-trade area" (which these three countries comprise). Along with this, the NAFTA espouses "conditions of fair competition" between its three participating nations, and provides protection and enforcement of intellectual property rights. The overall framework of cooperation, which the NAFTA promotes, promises to enhance the benefits that each country has to gain from the accord. NAFTA forms the world's second largest free-trade zone, bringing together in an open market 365 million consumers in Canada, Mexico and the United States.

NAFTA was predicated upon a 1989 trade agreement between the United States and Canada that eliminated or reduced many tariffs between the two countries. NAFTA called for immediately eliminating duties on half of all U.S. goods shipped to Mexico and gradually phasing out other tariffs over a period of approximately 14 years. Restrictions are to be removed

from many categories, including motor vehicles, automotive parts, computers, textiles, and agriculture. The treaty also protects intellectual property rights (patents, copyrights, and trademarks) and outlines the removal of restrictions on investment among the three countries. Mandates for minimum wages, working conditions, and environmental protection were later added as a result of supplemental agreements signed in 1993.³²

A pragmatic comparison between the two models can be made by these parameters: the nature of the agreements, the dynamics of integration and the state engagement.

THE NATURE OF THE AGREEMENTS

NAFTA is a comprehensive and detailed agreement with precise, delineated undertakings. It is length and extreme detail are its salient features. At some 700 pages, it is longer than the original General Agreement on Tariffs and Trade (GATT) ³³ document of 1948 or the 1957 Treaty of Rome³⁴, which established the European Common Market. In fact, very little was excluded during the negotiation of this agreement, which eventually contained some 295 articles and 90 annexes as well as numerous explanatory notes.

The multiplicity of this precision resulted from the absence of common institutions like those of the European Union³⁵; institutions those NAFTA members obviously did not desire. The signatories evidently designed such detail in an effort to minimize the need to return to negotiations to clarify commitments or to settle disputes caused by misinterpretations. NAFTA is thus a comprehensive and technical agreement, and its enforcement leaves little room for political micro-management.

Conversely, MERCOSUR is a simple and evolving agreement with ambitious goals. In contrast to NAFTA, whose detailed legal framework leaves little room for political debate, MERCOSUR more closely resembles a loose structure that is constantly evolving to meet the needs and demands of its members and whose final structure remains in large part to be determined.³⁶

Over the past six years, MERCOSUR has attained a certain maturity thanks to a series of developments. The BRASILIA (1991), COLONIA (1993), and OURO PRETO (1994) Protocols served to define key elements of the agreement that were originally left unresolved in 1991, including the final operating mode for its institutional bodies, common tariff nomenclature, the dispute settlement mechanism and reciprocal investment protection codes. Further decisions have been forthcoming, with directives periodically adding to the legal foundations of the association while additionally clarifying certain points of law necessary for daily operations. As a result, the scope of the agreement has been broadened to include customs procedures, rules of

origin and policies for dispute settlement, as well as certain emergency measures and protocols for investments, energy and agriculture.

The scope and language of economic integration agreements provide at the outset a good indication of how they will evolve in the future. The more comprehensive and detailed they are in their scope the less space they leave for a need for future negotiations. The US footprint clearly demonstrated in NAFTA is something that makes sense for the Anglo - Saxon culture. The Latin America culture however, requires agreements based on a step by step progression in order to avoid undesirable political intervention as well as claims that may mitigate or cancel previously agreed upon details.

THE DYNAMICS OF INTEGRATION

NAFTA is a legal, dynamic agreement. Despite its complexity, implementation has been remarkably even to date, proceeding smoothly and automatically without intervention.

With many included judicial and intra-structural tools, NAFTA's legal dynamic is closely linked to the laws; rules and regulations already set and implemented in the member countries.

Judicial processes to settle disputes are largely those utilized by the World Trade

Organization.³⁷

Conversely, MERCOSUR is a dynamic political agreement. Its implementation can not be evaluated strictly on the basis of the formal time frame contained in the Treaty of Assunción and related agreements. An important aspect of the MERCOSUR agreement is the ongoing process of adjustment, ³⁸ in which a number of parameters are gradually developed through direct negotiations. Another factor that must be taken into account is the gap between stated objectives and the situation prevailing in member nations. They must maintain a balance between commitments to their partners and the need to bring about economic changes without causing undue social unrest. For the four countries involved (Argentina, Brazil, Paraguay and Uruguay) the dilemma plays an integral part in their progress toward assuming a place in the global panorama. It also influences the process on several levels; paving the way for a flexible system, a less stringent application of restrictions, and relatively frequent recourse to "safeguard" measures and exceptions.

One of the major ways that MERCOSUR differs from NAFTA is in its sequence of integration. It defines automatic criteria for applying certain provisions of the agreement, but leaves other issues for future discussions. In short, to judge the current MERCOSUR dynamic, it is essential to take into account the organization's general approach regarding the type of relations deemed appropriate between partners. Respect for standards and established deadlines seems to be

sacrificed, on occasion, to national interest and short–term constraints, which tend to modify the legal and organizational standards of MERCOSUR in its various phases of implementation. This leaves room for backtracking and additional negotiations.³⁹

STATE ENGAGEMENT

NAFTA is a constraining free trade zone without State Intervention. A closer look at the contents of the NAFTA agreements reveals a striking level of state disengagement. The term "state disengagement" is interpreted as the State's gradual withdrawal from areas of intervention that have had a distorting effect on production or trade. Delal Baer has stated:

"By definition, NAFTA embodies a set of tri-national rules governing economic behavior. Acceptance of these rule has required fundamental modifications of traditional notions of sovereignty."

The disciplines governing State intervention with regard to goods, services, public markets and investment have affected the state's ability to intervene systematically with political motivations.

MERCOSUR however, is a flexible agreement towards a common market.⁴¹ The exact degree of government disengagement in the Southern Cone remains difficult to determine given that commitments have yet to be defined in a number of sectors. This is the case for services, government procurement, and intellectual property, areas that have not been completely resolved. In other sectors, already consolidated within the Organization, the level of constraint imposed on member states appears to be lower than that of NAFTA.

MERCOSUR is a work in progress and does not claim to offer a concrete vision of the government's role in the economy, as does NAFTA. Such relative flexibility allows the coexistence of somewhat different political and economic systems. Without such flexibility, it is unlikely that Argentina and Brazil would have agreed upon a joint cooperative project. It is equally unlikely that MERCOSUR would have attracted countries such as Bolivia and Chile, which have signed bilateral trade agreements with the group.⁴²

DISTINCT MODELS

Comparative analysis shows that NAFTA and MERCOSUR are different enough to be considered "distinct models" for integration. The above comparison centers on two broad concepts that best characterize the regional associations. In that view, NAFTA represents a mostly contractual approach based on legal dynamics, and MERCOSUR represents a participatory approach based on political dynamics.

Beyond the purely formal differences that such a comparison highlights, the existence of two fundamental approaches to integration is revealed. MERCOSUR and NAFTA are options between which regional players will have to choose. They define restraints on governmental management and State sovereignty, generate perceptions, bring values into focus, and ultimately help to define the regional economic entity. More than a customs union or a future common market, MERCOSUR provides a political voice for countries with economies in transition, whose governments are still fragile and whose international legitimacy is still to be constructed. NAFTA, in contrast, reflects the concerns and the level of development of its two main architects, Canada and the United States. More rigid in the standards and restrictions it imposes on member state, NAFTA tends to favor a certain legalism in relations between these states, thereby limiting its political expression to the express contents of the contracted agreement.

In this context, the principal that the two agreements can not be combined without sacrificing their fundamental objectives rings true. MERCOSUR and NAFTA will probably never become one. The question is not so much which Agreement will supplant the other, but rather how they will influence the creation of a future integration and the overall structure of economic cooperation on the continent. In this light, MERCOSUR and NAFTA are clearly opposing approaches to integration.

FREE TRADE AREA OF THE AMERICAS

As with any issue involving different countries or groups of countries, it is understandable that for the concerned parties the establishment of a broad Free Trade Area such as a continental one might mean both minor and major differences of opinion, procedural processes and conflict of interests. Divergent expectations are likely to exist regarding the great variety of economic sizes and the degree of foreign trade dependence, either at the sub-regional level or in relation to the major macro–regional power. However, a possible common meeting ground of the different expectations and interests could be the goal of achieving the expansion of the intra–regional flows of trade and investments for the majority of the countries in the Americas.⁴³

There is no doubt, in the case of the Latin American nations, that the attraction exerted by the U.S. market, clearly and by far the most relevant market of the region (taken as a whole, about 40 per cent of hemispheric merchandise exports are sold in the U.S. market⁴⁴) is a primary motivating force in preserving a "leap of faith" (despite the myriad of ambiguous and even contradictory signals from the U.S.) on the possibilities of a more open hemispheric trade and investment area. What is so anxiously anticipated is a huge Free Trade Area that will make the

Western Hemisphere the largest trading region in the world, covering thirty-nine million square kilometers with a combined Gross Domestic Product of more than nine trillion U.S. dollars and a market of seven hundred and sixty-five million people.⁴⁵

At the Summit of the Americas held in Miami in December of 1994, the leaders of the democratic governments of the Hemisphere agreed to construct a Free Trade Area of the Americas (FTAA) by the year 2005. 46 Subsequently, this effort to unite the economies of the Western Hemisphere into a single free trade arrangement has been slowly progressing. To date, there have been five separate Ministerial meetings held in Denver, Colorado; Cartagena, Colombia; Belo Horizonte, Brazil; San Jose, Costa Rica and Toronto, Ontario, Canada. At the San Jose Ministerial, the region's Trade Ministers agreed to recommend that their respective Heads of State initiate negotiations on the FTAA during the Second Summit of the Americas, held on the 18th and 19th of April 1998 in Santiago, Chile. During 1999, intensive preparatory discussions were held as each negotiating group took shape and defined its issues. During the year 2000, work on the production of specific texts for each chapter of the potential agreement intensified as the year wore on.

The Summit of the Americas Declaration of Principles stressed the need to construct the FTAA, in which barriers to trade and investment will be progressively eliminated by 2015. In the Declaration, the participating leaders stated: "We recognize the progress that already has been realized through the unilateral undertakings of each of our nations and of the sub-regional trade arrangements in our Hemisphere. We will build on existing sub-regional and bilateral arrangements in order to broaden and deepen hemispheric economic integration and to bring the agreements together."

THE FTAA PROPOSED BY THE UNITED STATES.

The FTAA concept originated in 1990 under a Republican, President Bush (Senior),⁴⁸ and was again taken up at the end of 1994 by a Democrat, President Clinton.⁴⁹ Thus, at least at the Executive level, the project appears to have bi-partisan support.

The main interest in the FTAA of the U.S. administration appears to lie in the perceived opportunity to promote a new trade agenda. The FTAA originated at a time of deep frustration at the lack of progress in the Uruguay Round. This frustration helps to explain U.S. interest in NAFTA, where the U.S. was able to place on the agenda its new concerns in international trade and investment. An extension of NAFTA to the rest of the Americas provides the U.S. with an opportunity to implement its own agenda with less risk of losing control. For a country now ambivalent about the virtues of multi–lateralism, this is an attractive opportunity.

The FTAA can also be seen, from the U.S. perspective, as a 21st Century version of the Monroe Doctrine.⁵¹ It is a sophisticated and mutually beneficial U.S. instrument for restricting European and even Asian influence.⁵² A successful conclusion to the FTAA negotiations would undoubtedly further strengthen the economic, and probably political, ties between Latin American countries and the U.S. and further reduce the trade linkages with the European Union only because the regional market would be captive inside FTAA. Indeed, such a possibility is undoubtedly one of the factors behind European interest in Preferential Trade Agreements with Latin American countries.

It is not difficult, therefore, to see why the U.S. administration continues to argue in favor of the FTAA. However, the obstacles it faces are considerable. Even within the U.S., Congress is unwilling to offer "fast– track" status, without which negotiations for the FTAA will certainly stall. Public opinion has shifted⁵³ against NAFTA as a result of Mexico's economic and political difficulties since December 1994 and the FTAA is seen as an extension of NAFTA.⁵⁴

THE BRAZILIAN VERSION FOR FTAA.

The Brazilian disposition to maintain an independent stance not only in regard to the region's free trade process but most importantly concerning the United States' preferred course of action, ⁵⁵ has been attributed to several factors.

The primary factor is, according to Guilhon, ideologically-rooted. Decades of resentment accumulated after the U.S. Government, as a result of the start of the Cold War, frustrated the Brazilian Government's expectations of remaining as a privileged ally of the 'Big Brother of the North." The Brazilian elite began to foster the perception, regardless of particular ideological preferences, that Brazilian development was grossly incompatible with U.S. interests and vice versa. A perception that was strongly reinforced as increasingly acrimonious trade and investment disputes began to dominate the Brazilian – U.S. agenda. This perceived bilateral incompatibility could thus be summarized in the phrase: 'whatever was thought to be good for Brazil was surely bad for the U.S., and whatever was seen as good for the U.S. was certainly bad for Brazil." Secondly, most of the diplomats, academics and politicians that are currently occupying positions of power and influence in Brazil are individuals whose formative period occurred during the so-called national populist era, in which exploiting anti-American feelings was an important instrument of political mobilization. In the specific case of Itamaraty (the Brazilian Foreign Office), many officials reached maturity at a time when the survival of a national project of development and modernization seemed highly conditioned on the country's

capabilities to find alternatives to the political subordination and economic dependence to the U.S. 56

The third factor is of a sociological nature, and entails a certain insecurity regarding the objectives or goals of economic diplomacy. The acceptance of market rules as a given, in both the domestic and international economic realms, along with the uncertainty elicited by such a recent acceptance, provide good grounds for a generalized cautiousness.⁵⁷

All the above notwithstanding, it is obvious that for Brazil MERCOSUR and in general, South American economic regionalism, is a relevant geo-economic option. Given the fact that South America is a third trading partner⁵⁸ and is an essential geopolitical option, given the objective of the Brazilian government – fully articulated since the beginning of the Cardoso Administration⁵⁹ – to transform Brazil into a major actor /player on the world stage in the next ten or twenty years. This is recognized by the United States. Redirection of Brazilian foreign policy is said to be part of Cardoso's plan of causing a fundamental shift in Brazilian history. A former Brazilian Foreign Minister, Rubens Ricupero summarizes this diplomatic re-positioning as follows:

"In the current complex world, which does not fit in any of the past scenarios, there is space for new actors, especially for those who have engaged in efforts to achieve a certain regional configuration. In an atmosphere of systematic convergence (productive globalization), there is room for Argentina, Brazil, Uruguay and Paraguay's joint efforts and for a more important presence for them than the one they had when they were advancing purely national projects."

Brazil did not propose the FTAA and for the first half of the1990s had other priorities, e.g. MERCOSUR, macro economy and inflation stabilization. By the time Brazil began to take the project seriously, following the 1994 Presidential Summit, the FTAA was already taking shape as an U.S. inspired project. Thus, Brazil found itself having to react to events rather than leading them – the exact opposite of its experience with MERCOSUR.⁶¹

The FTAA has taken shape at a difficult time for Brazil. It has coincided with the shift from a large balance of trade surplus in 1993 to a severe deficit in 1995 and subsequent years. Thus, Brazil is not in a strong position to contemplate a further round of tariff reductions and is already facing serious domestic opposition to the trade liberalization measures already adopted. This position has not been made any easier by the Asian financial crisis, since Asian exports are competing with Brazilian products both in the domestic market and in the developing countries. ⁶²

Brazil is wary of the new U.S. trade agenda and needs allies to block some of its more radical features. These allies (e.g. India) can be found in the World Trade Organization, but Brazil cannot be too confident of support by other Latin American countries. This is one reason why

Brazil is determined that MERCOSUR should negotiate as a bloc in the FTAA. Just as the FTAA is an U.S. inspired program, so MERCOSUR increasingly appears as a Brazilian project with Itamaraty firmly in control of its agenda. The latter includes agreements by MERCOSUR with other countries, leading to Brazil's dream of a South American Free Trade Area (SAFTA), but not expansion of MERCOSUR itself as this could dilute Brazil's leadership position. That conclusion could be derived from Brazilian diplomatic concepts such as "in this contest we are watching the progress of NAFTA and other regional moves like the Andean Group and we are ready for negotiations in which MERCOSUR will participate as an unit with any other partner in the hemisphere. As a "global trader," Brazil does not favor the creation of a privileged relationship with any of the great economic blocs."

The clear Brazilian vision about the future integration of the Americas can be best expressed by an understanding of the priorities that "certainly include the consolidation of MERCOSUR (Brazil's third most important trading partner, after the European Union and the United States, with around 13% of its foreign trade); relations with the country's Latin American neighbors and the processes towards integration in the hemisphere; interaction with the three centers of world economic power (the United States, the European Union and Japan) as well as with the Asian Pacific region, human rights and the environment; the reform of the United Nations and the protection of Brazilians abroad."65

A SAFTA with Brazil as its undisputed leader, and negotiating as a bloc, would be a formidable force in FTAA negotiations. This is why Brazil has an interest in delaying both the start of negotiations and the implementation of any Agreement. Brazil's position has been consistent and effective, but is not shared by all Latin American countries (e.g. Costa Rica) and is certainly not supported by the United States.⁶⁶

CONCLUSION

Sub-regional integration within the Americas is probably here to stay. MERCOSUR and NAFTA have proven the reality of these examples of modern integration based on economic bounds. The MERCOSUR Agreement is primarily based on political desire and commitment to tie economic common objectives, and NAFTA mostly on economic trade interests. Both of these organizations have good prospects as their design takes more account of new circumstances and there are few, if any, impediments inherited from the past.⁶⁷

Although MERCOSUR precludes a common market as an end state, it has reached a fair stage of free trade. It offers certain advantages for the country members because it is politically flexible. As an example, it could eventually include meaningful provisions on labor rights,

environmental issues and other social concerns. On the other hand, the NAFTA experience has the American-Canadian successful footprint: trade measures by straight regulation.

Culture and history play a key part in this context. For Latin American countries, MERCOSUR is the most suitable model, close to their own political and economic reality. On the other hand, NAFTA is the simple and clear outlook for Canada and the United States; Mexico has taken advantage for its geographic location, which has opened a new front for its economy.

That said, it cannot be denied that a major regional integration is a stressful business. There is little evidence that a hemisphere-wide trade agreement based only on MERCOSUR or NAFTA models would establish a solid foundation for economic relationships that would foster sustainable development and economic progress in member countries. Instead, the integration through the FTAA must be specifically structured to serve as a tool for development that benefits all at an even pace. FTAA may be a viable project if in the very first moments:

- Negotiations between governments can be easily ratified by their Congresses;
- Multilateral approaches lead over bilateral negotiations; and
- An acceptable flexibility prevails in regulations to adapt to political shifts and changing economic situations of the country members.

Among a myriad of trade solutions for FTAA, the negotiations between economic blocs are also a valuable tool to speed and expand trade once the blocs have already established their parameters and common agreements. Adalberto Rodrigues Giavarini, the Argentine Foreign Minister, stated that "the countries of MERCOSUR have logic in thinking that the FTAA should not be the result of a unilateral initiative but one of a negotiating process among all countries and regional blocs."

At the Summit of the Americas, former President Clinton proclaimed that with the Free Trade Area of the Americas "we can create a partnership for prosperity where freedom and trade and economic opportunity become the common property of all the people of the Americas." ⁶⁹To transform this statement in reality, a third economic integration model ought to be achieved - one that is unique and comprehensive and one which includes the application of the successful experiences and lessons learned with MERCOSUR and NAFTA. Time is crucial; no serious commitment with FTAA can set a time frame disregarding intermediate goals and responses. Otherwise, the common Latin American feeling that "a cat can not survive with a lion in the same cage" will become true and one more time the Continent will lose an opportunity to become the most powerful region in the world.

The failure of the FTAA initiative could bring a new era of distrust as well as a return to bitter relations between the United States and the Latin American countries.

WORD COUNT = 6,812

ENDNOTES

- ¹ Gordon Mace and Louis Bélanger, and contributors, <u>The Americas in Transition</u> (Boulder, Colorado: Lynne Rienner Publishers, Inc, 1999), 1.
 - ² Ibid.
- ³ Andrew Hurrell, <u>Regionalism in the Americas</u> (Oxford, England: Oxford University Press, 1995), 38.
 - ⁴ Gordon Mace and Louis Bélanger, and contributors, 2.
- ⁵ Kym Anderson and Richard Blackburst, <u>Regional Integration and the Global Trading System (</u> New York, NY: Harvester, 1993),18.
- ⁶ Kenneth P. Thomas and Mary Ann Tetreault, <u>Racing to Regionalize</u> (Boulder, Colorado: Lynne Rienner Publishers, Inc, 1999), 1.
- ⁷ Harold Molineu, <u>U.S. Policy toward Latin America: From Regionalism to Globalism</u> (Boulder, CO: Westview Press, 1986), 13 19.
- ⁸ Gordon Connel Smith, <u>The United States and Latin America, An Historical Analysis of Inter-American Relations</u> (London, England: Heinemann Educational Books, 1974), 121.
- ⁹ This expression derives from Simon Bolivar who inspired and actually led several South American Independence Movements from Spain during the nineteenth century.
- ¹⁰ Miguel Centellas, "The Bolivarian Republic", 1995; available from:<<u>http://www.geocit#ies.com/Athens/</u>Acropolis/7609/repbol.html >; Internet; accessed 30 November 2000.
- In 1990, President George Bush unveiled his Enterprise of the Americas Initiative (EAI), a hemispheric program that he projected would establish a free-trade zone stretching from "Anchorage to Tierra del Fuego," expand investment and provide a measure of debt relief to the countries in Latin America and the Caribbean. The three components of the EAI were: the negotiation of a series of free-trade agreements, beginning with the North American Free Trade Agreement (NAFTA); the establishment of a US\$1.5 billion grant fund to support the implementation of investment reform programs; and a program of official debt relief, with the conversion of the interest on the remaining debt used for environmental funds in Latin America and the Caribbean.
- ¹² Robert A. Pastor, <u>Whirlpool: U.S. Foreign Policy Toward Latin America and the Caribbean</u> (Princeton, NJ: Princeton University Press, 1992), 97.
- ¹³ The U.S. Constitution empowers the president to conduct foreign policy, including negotiating trade treaties, but also grants Congress the power to regulate commerce with foreign nations. To deal with this apparent contradiction, Congress and the president have designed elaborated procedures to allow congressional input on trade agreements while still permitting the president necessary leeway to negotiate complex trade agreements. In what are called "fast track" procedures.

Although these procedures are intended to put trade agreements on a fast legislative track, in fact, for many reasons, they lay out a slow and deliberate process.

- ¹⁴ Sidney Weintraub, NAFTA and US Economic Sovereignty. (Washington DC, Center of Strategic and International Studies, 1996).
- ¹⁵ Patrice M. Franko, Georges A. Fauriol, <u>Toward a New Security Architecture in the Americas: The Strategic Implications of the FTAA (Significant Issues Series)</u> (Washington DC, CSIS Publication, 2000), 22.
- ¹⁶ Georges A. Fauriol, <u>Thinking Strategically About 2005: The United States and South America</u> (Washington –DC, CSIS Publication, 1999), foreword.
- ¹⁷ Monica Hirst and Maria Regina Soares de Lima, <u>Between Neo-Alignment and Neo –</u>
 <u>Autonomy: Is there a Third Way in U.S. Brazilian Relations</u>?(Documentos de Investigacion 164 Working Paper, Buenos Aires, FLACSO July 1994).
- ¹⁸ Susan Kaufman Purcel, <u>The New U.S. Brazil Relationship</u>. in S.K. Purcell and R. Roett (eds.), Brazil Under Cardoso (Boulder, CO: Lynne Rienner Publishers, 1997),94.
- ¹⁹ President Fernando Henrique Cardoso , "Article written by President Fernando Henrique Cardoso ", Juy 1994; available from< http://www.brazil.org, uk/article.html> ; Internet; accessed 24 July 2000.
- ²⁰ ITAMARATY is the name of the building which accommodates the Brazilian Foreign Ministry.
- ²¹ Brazilian Foreign Ministry, "UN Security Council, the Brazilian Position", 1998; available from < http://www.mre.gov.br/intrapub/-PubRepertorioTexto.asp?S=M&C=1656>; Internet, accessed 20 December 2000.
- ²² Rex A. Hudson, <u>Brazil: a country study</u>,(Washington, DC, Federal Research Division, Library of Congress, 1998), 250.
- ²³ Brazilian Embassy in Washington, "U.S. Barriers on Brazilian goods and services", November 2000, available from < http://www.brasilemb.org/trade/trade_barriers.htm > ; Internet accessed 10 December 2000.
- ²⁴ Riordan Roett , <u>MERCOSUR</u>, <u>Regional Integration</u>, <u>World Markets</u> (Lynne Rienner Publishers, Inc, 1999), 111-116.
 - ²⁵ Susan Kaufman Percell, 96.
- ²⁶ João Paulo dos Reis Velloso, <u>Brasil e o Plano Bush: oportunidades e riscos numa futura integração das Américas</u>.,(São Paulo, Brasil: Nobel, 1991), 34.
- ²⁷ Octavio lanni, <u>A sociedade global</u>. (Rio de Janeiro, Brasil: Civilização Brasileira, 1992), 56.

- ²⁸ MERCOSUR, which stands for "Mercado Común del Sur" in Spanish language, is the most widely used acronym, but the agreement is also known as MERCOSUL, the Portuguese equivalent of the Spanish acronym.
- ²⁹ Fernando Collor was the Brazilian President between 1990 and 1992, the first president elected by a direct popular vote after a twenty year period ruled by military. He has started to open the Brazilian economy under the neo-liberalism concept.
 - ³⁰ Hector Alimonda, Mercosul: cone passivo. Teoria e Debate 19 (1992), 68-73.
- ³¹ Rubens Antonio Barbosa, <u>América Latina em perspectiva: a integração regional da retórica à realidade.</u> (São Paulo, Brasil: Aduaneiras, 1991), 35-47.
- ³² Encarta Encyclopedia 2000; available from < http://www.encarta.msn.com > ; Internet accessed 22 Jan 2001.
- ³³ The General Agreement on Tariffs and Trade (GATT) was developed by the United Nations and has served as a catalyst for the lifting of legal barriers against the free movement of goods and services. Now under the auspices of the World Trade Organization, the implementation of GATT by almost all countries is causing commercial law interplay between differing legal systems and, in most cases, providing impetus for those legal systems to move towards similarity and compatibility. The GATT also shows a new emphasis on the development of law in the world: from military and basic rights to trade and economic matters.
- ³⁴ In the Treaty of Rome in 1957, the six states (France, Germany, Italy, Belgium, Netherlands, Luxembourg) created two organizations. One extended the coal-and-steel idea into a new realm, atomic energy. Euratom, the European Atomic Energy Community, was formed to coordinate nuclear power development by pooling research, investment, and management in that issue area. It continues in operation today with an expanded membership. The second organization was the European Economic Community (EEC), later renamed European Union (EU). After its founding in 1957 the EEC was often simply called the Common Market. Actually a common market was not immediately created, but was established as a goal (which has since been largely realized). The treaty called for a sequence of steps to more closely coordinate the six states' economies over time.
- Institutions created by the Treaty of Rome are the European Investment Bank, which is the EU's financing institution has seen its role reaffirmed by the Treaty on European Union; the Economic and Social Committee with the aim is to advise the Commission and the Council on social and economic matters; and the Euratom Supply Agency is part of the Commission and administers supply policy to the Commission in the area of nuclear energy. The aim is to ensure the supply of ores, source materials and special fossil materials."
- ³⁶ Martin Arocena, <u>Common Market of the Southern Cone (MERCOSUR)</u>, in A. J. Jatar and S. Weintraub (eds), Integrating the Hemisphere. Perspectives from Latin America and the Caribbean (Washington, DC: Inter American Dialogue, 1997), 46 49.
- 37 Gary Clyde Hufbauer and Jeffrey J. Schott , <u>NAFTA an assessment, revised edition</u> , (Institute for International Economics DC , 1993), 12 14.

³⁸ MERCOSUR held its XIX Summit in 2000.

- ³⁹ Wilson Fernandez, "El MERCOSUR ante el Nuevo Siglo: Tendencias y Perspectivas", paper read at the annual meeting of the Latin American Studies Association, Guadalajara, April 17, 1997.
- ⁴⁰ Delal M. Baer, <u>New Pattern of Conflict and Cooperation</u>, in M.D. Baer and S. Weintraub (eds.), The NAFTA Debate: Grappling with Unconventional Trade Issues (Boulder, CO: Lynne Rienner Publishers, 1994) 183,188.
- ⁴¹ Walter Praxedes and Nelson Piletti, <u>O MERCOSUL e a Sociedade Global</u>, Editora Ática, São Paulo, Brazil, 1996), 46.
- ⁴² Claudia B.Sánchez Bajo, <u>Argentine-Brazilian Integration in a Historical Perspective</u> (Boston: Institute of Social Studies 1992), 25-28.
- ⁴³ Stephen C. Calleya, Regionalism in the Post-Cold War World (Ash gate Publishing Ltd, England 2000), 162
- ⁴⁴ Weintraub, Sidney, "Getting to Hemispheric Trade". Hppt: // info.lanic.utexas, edu/ cswhV TIP3/html
- ⁴⁵Integration Bulletin for Latin America and the Caribbean N 0 4, May 1997; http://www.sela.org/ en-intregra/ engin4.htm.
- ⁴⁶Karen Hasen-Kuhn, <u>Free Trade Area of the Americas</u> (Tom Barry and Martha Horney, Volume 3, Number 6, April 1998) [database on –line]; available from Foreign Policy in focus, Internet Gateway to Global Affairs.
- ⁴⁷ Summit of Americas Information Network, 27 Jun 2000; available from < http://www.summit-americas.org/FTAA/ftaaissue.htm >; Internet, accessed 24 November 2000
- ⁴⁸President George Bush unveiled his Enterprise of the Americas Initiative (EAI); a hemispheric program that he projected would establish a free-trade zone.
 - ⁴⁹ Stated it in the Summit of Americas in Miami.
- ⁵⁰ The GATT Uruguay Round is a significant step towards free trade, even though it does not go as far as some supporters originally hoped. The major accomplishment was in enlarging the scope of the negotiations to include many areas of trade not covered in the previous eight rounds. These included barriers to trade in agriculture, textiles, and services; protection of intellectual property rights; and international investment. Also, a stronger world trade organization, the World Trade Organization, was created. This agreement provides a foundation for further reductions in trade barriers in future rounds of negotiations.
- ⁵¹The Monroe Doctrine was an American diplomatic decision, which greatly influenced the world, and the way it has developed to present day. It was a policy initiated by President James Monroe that aimed to limit European expansion into the Western Hemisphere. Monroe proclaimed in 1823"the American continents, by the free and independent condition, which they have assumed and maintain, are henceforth not to be considered as subjects for future colonization by any European powers." The US accepted the responsibility of being the

protector of independent Western nations and affirmed that it would steer clear of European affairs.

- ⁵² Country Team Presentation at Casa Grande, briefing slides and question and answer period. IF Latin America Trip Field, Managua, Nicaragua, 25 October 2000.
- ⁵³ The CQ Researcher, June 7, 1996, Volume 6, nr 21, Page 481. Published by Congressional Quarterly, Inc.

⁵⁴Calleya, 202.

⁵⁵Mace, 140.

- ⁵⁶ José Augusto Guilhon Albuquerque, Relações Brasil Estados Unidos e as integração continental", <u>Política Externa</u>, Vol 5, Nr 1 (June, July August 1996),12.
- ⁵⁷Maria Helena Tachinardi, <u>MERCOSUL: Desafios e Oportunidades</u> . Revista de Política Externa, Vol 3, Nr 4 (March 1995), 85.
- ⁵⁸ Jorge Castro, <u>Brasil, Argentina e EAU</u>. Revista de Política Externa, Vol 3, Nr 4 (March April, May, 1995) 38
- ⁵⁹ The Brazilian's President Fernando Henrique Cardoso was elected in 1994 and reelected in 1998.
- ⁶⁰Ammando Di Filippo, MERCOSUR: Evaluation and Perspectives, (CaDitulos del SELA Nr 49, January March 1997). http://www.sela.org/eng_capitulos/rcapin493.htm.
 - ⁶¹Riordan, 111.
- Victor Bulmer Thomas and Sheila Page, "Trade Relations in the Americas: MERCOSUR, the Free Trade Area of the Americas and the European Union" in <u>The United States and Latin America: The New Agenda</u>, ed: Victor Bulmer – Tomas and James Durkerley (Institute of Latin American Studies, University of London and David Rockefeller Center for Latin American Studies, Harvard University, 1999), 92.

⁶³lbid, 93.

- ⁶⁴Association of the Brazilian Diplomats Newsletter, Fernando Henrique Cardoso speech. (1994).
- ⁶⁵ Luiz Felipe Lampreia, "The foreign policy of the Fernando Henrique Cardoso Government until february 2001", <u>Jornal do Brasil</u> (08 January 1995).
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⁶⁷ Ibid, 95.

⁶⁸ CNN article, MERCOSUR will present a FTAA proposal in next April meeting, Available at http://cnn.com.br/2001/economia/01/19/mercosul19/index.html, 22 Jan 01.

⁶⁹ Karen Hansen-Kuhn, In focus: Free Trade Area of the Americas, Vol 3, Number 6, April 1998. Editors: Tom Barry and Martha Honey, Available at http://www.foreignpolicy-infocus.org/briefs/vol3/v3n6trad.html, 22 Nov 2000.

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